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Report on internal audit and investigation activities for the period from 1 January to 31 December 2013

Summary

The present report provides information on the internal audit and investigation functions carried out for the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) for the period from 1 January to 31 December 2013. The internal audit function for UN-Women is carried out by the UN-Women Audit Unit of the Office of Audit and Investigations of the United Nations Development Programme in accordance with the financial regulations and rules of UN-Women (UNW/2012/6, annex I). The investigation function is carried out by the Office's Investigations Section. Information on the actions undertaken and the management response to the present report are annexed to the report and available on the website of UN-Women. The report of the Audit Advisory Committee of UN-Women and the management response thereto are contained in the addendum to the present report (UNW/2014/4/Add.1).

The Executive Board may wish to: (a) take note of the present report; (b) express its continuing support for the audit and investigation functions provided by the Office of Audit and Investigations; and (c) take note of the report of the Audit Advisory Committee and the management response thereto.

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I. Introduction

1. The Office of Audit and Investigations of the United Nations Development Programme (UNDP) hereby submits to the Executive Board of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) its report on internal audit and investigation activities relating to UN-Women for the year ended 31 December 2013.

II. Assurance in UN-Women

2. To achieve the goal of providing assurance with regard to governance, risk management and control systems, audits conducted by the UN-Women Audit Unit should focus on those areas of governance, management and operations assessed as posing the highest financial, reputational, legal and functional risks to UN-Women and the achievement of its goals.

A. Mandate

3. The internal audit function for UN-Women is carried out by the Office of Audit and Investigations in accordance with the financial regulations and rules of UN-Women (UNW/2012/6, annex I) and biennial service level agreements, the first of which was signed on 5 December 2011. The dedicated UN-Women Audit Unit was established by the Office in 2012, with two audit posts. In the light of the roll-out of the regional architecture of UN-Women and the organizational size of the Entity, the staffing level of the Audit Unit was increased from two to four audit posts and an amendment to the initial service level agreement was signed in December 2012. In 2013, the recruitment process was completed, and the four audit posts have been filled with effect from December 2013. A new service level agreement maintaining the four audit posts was signed on 6 December 2013 for the biennium 2014-2015.

4. The Office of Audit and Investigations confirms to the Executive Board that it conducts its audits in accordance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics established by the Institute of Internal Auditors.

5. In addition, the Office confirms that in 2013 it was operationally independent of the management of UN-Women and was free to determine the scope of its audits and investigations in accordance with international standards.

B. Independent external oversight

6. The Audit Advisory Committee consists of five independent external experts. The Committee was established in September 2012 to provide the Under-Secretary-General/Executive Director with independent advice on good practices regarding the accountability framework, systems and risk management of UN-Women. The Committee also reviews the Audit Unit's audit strategy, annual workplan, budget, audit risk assessment models, quarterly activity reports and resources, audit reports

and investigation activities. The Committee provided comments on the draft annual report to the Executive Board.

7. The Audit Unit coordinates its work with the Board of Auditors.

C. Risk-based audit planning

8. The 2013 audit plan was formulated after a risk assessment of the auditable areas of UN-Women had been conducted, in consultation with senior management, relevant divisions and other stakeholders. The planned audits of the Board of Auditors were also considered in order to avoid the duplication of efforts in providing assurance to the Under-Secretary-General/Executive Director and the Board. The risk assessment is reviewed every year for relevance.

9. The final selection of the field-based offices and headquarters units to be audited for 2013 was based on: (a) the risk ranking of the offices/headquarters units; (b) the regional priorities of UN-Women management; and (c) the audit strategy that requires those offices rated as very high-risk to be audited every two years, those rated as high-risk every three years, those rated as medium-risk every four years and those rated as low-risk every five to six years, subject to audit capacity. In 2013, the Audit Unit reviewed country offices that were ranked as high- and medium-risk.

10. The 2013 audit plan was reviewed by the Audit Advisory Committee in January 2013 prior to its submission to and approval by the Under-Secretary-General/Executive Director, in February 2013.

D. Audit reports issued in 2013

11. The audit reports for seven field-based offices were issued in 2013: the country office in Afghanistan (report No. 982, issued on 11 April 2013); the subregional office in India (report No. 1121, issued on 7 June 2013); the subregional office in Kenya (report No. 1077, issued on 28 June 2013); the country office in the Democratic Republic of the Congo (report No. 1220, issued on 29 October 2013); the country office in South Sudan (report No. 1221, issued on 31 October 2013); the country office in Colombia (report No. 1222, issued on 1 November 2013); and the country office in Haiti (report No. 1224, issued on 18 December 2013). All the reports are available from http://audit-public-disclosure.unwomen.org.

12. Most of the audit reports issued in 2013 covered activities carried out by UN-Women offices in 2012; hence, the audit results generally reflect the status of programmes and operations during that year. The seven full-scope audits covered programmatic and operational activities of the UN-Women offices and represented expenditures of approximately $39 million, or 17 per cent of the total of $235 million in expenditure, as recorded in the Entity's enterprise resource planning system, Atlas.

E. Audit ratings

13. On the basis of the results of an audit, the Office of Audit and Investigations generally assigns an overall audit rating, in terms of its assessment of governance,

risk management and control processes. The Office assessed only one (14 per cent) of the seven offices as unsatisfactory, which meant that internal controls, governance and risk management processes either had not been established or were not functioning well and that the achievement of the overall objectives of the audited entity might be seriously compromised. Four (57 per cent) of the audited offices were assessed as partially satisfactory, meaning that one or several issues were identified that might negatively affect the achievement of their objectives. The remaining two offices (28 per cent) were assessed as satisfactory, as no issues were identified that might significantly affect the achievement of their objectives.

III. Disclosure of internal audit reports

14. In accordance with Executive Board decision 2012/10 (see UNW/2012/16), internal audit reports are publicly disclosed 30 days after their issuance to management and the Member States concerned, which are permitted to review them and request a redaction should there be sensitive information that could reflect negatively on a third party. The public disclosure website became operational on 7 May 2013. All 2013 internal audit reports were publicly disclosed on the UN-Women website without redaction.

15. The public disclosure of the internal audit reports attests to the commitment of UN-Women to organizational transparency and promotes accountability with its development partners.

IV. Staffing and budget

Staffing

16. In 2013, UN-Women took action to address the issue of inadequate resource allocation to the Audit Unit, as raised by the Board of Auditors in 2012, by authorizing two additional audit posts. The two posts (one P-3 and one P-4) were encumbered in October and December 2013, respectively. At 31 December 2013, the Unit had four posts dedicated to the conduct of UN-Women audits.

Budget

17. In 2013, the Audit Unit had an overall budget of $0.9 million, representing an increase of approximately $0.3 million compared with the 2012 budget. The audit and investigations expenditures amounted to $0.7 million, which indicated underspending of the budget by 22 per cent, owing mainly to delays encountered in completing the recruitment processes for the two additional staff members.

V. Significant internal audit results

18. The scope of a field office audit generally covers activities related to: (a) governance and strategic management; (b) programme activities (programme and project management, partnerships and resource mobilization); and (c) operations (human resources, finance, procurement, information and communications technology, asset management, leave management, safety and security, general administration and operational support provided by UNDP).

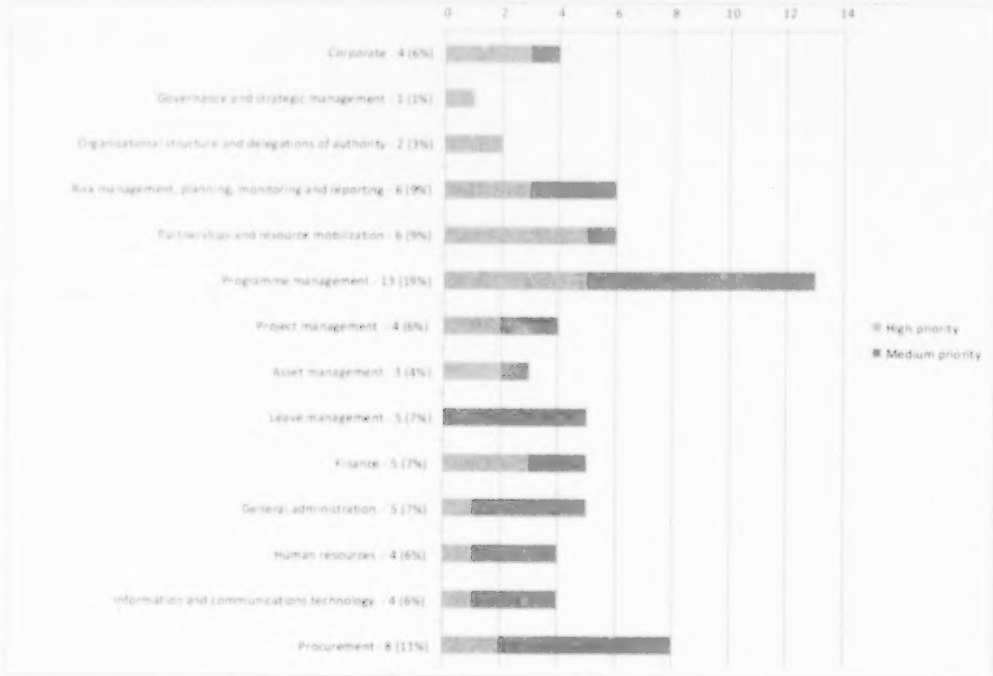
19. In 2013, the Office of Audit and Investigations issued seven reports relating to audits of field-based offices.

20. The seven reports concerned the audits of five country offices and two subregional offices. Altogether, those audits resulted in 70 recommendations, including 4 (6 per cent) that dealt with corporate issues. Three of those issues were related to governance, specifically, the lack of policies and procedures regarding segregation of duties, the lack of risk management policies and procedures, and the lack of a host country agreement specific to UN-Women. The fourth corporate issue concerned the lack of guidance with respect to the proper set-up and use of Atlas for the recording and monitoring of programme/project activities and expenditures.

21. Although management has been responsive to office-specific recommendations, as indicated in section VI below, the Audit Unit observed some consistency between the issues raised in the 2012 annual report and those referred to in the present report. A further analysis of all the recommendations revealed the re-emergence of some issues, such as: (a) difficulties encountered during the roll-out of the regional architecture related to operational and programmatic capacities (seven offices); (b) delays in strategizing and initiating the mobilization of funds (four offices); (c) inadequate project monitoring and oversight processes and the lack of a project monitoring framework/plan (five offices); (d) inadequate procurement planning (four offices); (e) weaknesses in the management of advances to implementing partners (six offices) and (f) weaknesses in asset management, including incomplete and/or outdated asset lists in Atlas, failure to carry out physical inventories, and untagged assets (six offices).

22. Of special concern was the proportion of audits that noted issues relating to project advances to implementing partners (71 per cent) and the absence or inadequacy of a resource mobilization strategy (57 per cent).

Distribution and prioritization of audit recommendations in 2013[a]



[a] Total number of recommendations: 70.

23. As at 31 December 2013, 19 of the 70 recommendations made in 2013 had been fully implemented, with 51 still outstanding, of which 23 (45 per cent) pertained to reports issued in the last quarter of 2013. Of the 51 outstanding recommendations, 24 (47 per cent) were ranked as high-priority.

VI. Follow-up on audit recommendations

24. The audit reports issued between 1 September 2010 and 31 December 2013 included a total of 177 audit recommendations. As at 31 December 2013, 10 of the 177 recommendations had been withdrawn, as they were no longer relevant, owing to the changes in the organizational structure and operations of UN-Women. Of the remaining 167 recommendations, 112 (67 per cent) had been fully implemented, 30 (18 per cent) were in the process of being implemented, and implementation activities had yet to be started for 25 (15 per cent).

25. Of the 30 recommendations in the process of being implemented as at 31 December 2013, 4 (2 per cent) had been outstanding for more than 18 months without being fully implemented. All long-outstanding recommendations were implemented during the first quarter of 2014.

26. Of the 25 recommendations whose implementation had not yet started, 23 related to audit reports issued in the fourth quarter of 2013.

VII. Advisory services

27. The Audit Unit continued to provide, upon request, advice to UN-Women managers at headquarters and field offices. The advice covered a range of topics, including: donor requests for information; non-renewal of the lease agreement; detailed assignments; recommendations for interim coverage of a Deputy Representative post; the writing-off of receivables; audits of projects implemented by national Governments or non-governmental organizations; the determination of the useful life of assets; audit/investigation clauses in donor agreements; and reporting against the system-wide action plan on gender equality and the empowerment of women. Advisory services were also provided as part of a review of the policy and procedures relating to cash advances to implementing partners.

VIII. Investigations

28. In accordance with the service level agreement, the Office of Audit and Investigations provides investigation services covering allegations of fraud, corruption or other wrongdoing, including workplace harassment, the abuse of authority or retaliation against whistle-blowers, by UN-Women staff members, non-staff personnel and contractors.

29. As at 1 January 2013, the Office had two cases pending from 2012, one of which had been resolved by 30 June 2013. The investigations "hotline" became operational in November 2012. This provided, for the first time, a UN-Women dedicated mechanism allowing for the multi-language and toll-free reporting of allegations. The UN-Women Legal Framework for Addressing Non-Compliance with United Nations Standards of Conduct, promulgated in January 2013, also established reporting and investigation processes concerning misconduct within UN-Women. The Office participated in training exercises throughout the year in relation to the Legal Framework, in particular the reporting procedures and investigation process. The Office has since seen a significant increase in reported cases, the number of which rose from 2 in 2012 to 18 in 2013. Of the 20 cases active in 2013, 10 were closed subsequent to a preliminary assessment indicating that further investigation was not warranted, and 1 was investigated and referred to the UN-Women Legal Adviser. Nine cases were still open as at 31 December 2013.

30. Of the 10 cases closed after the preliminary assessment, 2 were related to abuse of authority, 2 to workplace harassment, 2 to misuse of UN-Women resources and 4 to procurement fraud. In 1 of the 10 cases, indications of fraud were noted amounting to $389,844. However, there was no loss to UN-Women in that case, as the fraud had been detected before a contract was issued. In the one case that was investigated, the financial loss amounted to $2,548.

31. Following the issuance of the Legal Framework, all investigation reports are to be referred to the Director, Division for Management and Administration, for action.

IX. Overall conclusion

32. The results of the internal audits indicated that the internal controls, governance and risk management processes audited were generally established and functioning but needed improvement. Recommendations made to management are being acted upon, and this should further strengthen the ability of UN-Women to deliver on its mandate. No significant investigation matters were identified in 2013.

Annex

Management response to the report on internal audit and investigation activities for the period from 1 January to 31 December 2013

1. The United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) is pleased to present its management response to the report of the Director of the Office of Audit and Investigations of the United Nations Development Programme (UNDP) on internal audit and investigation activities for the year ended 31 December 2013.

2. UN-Women acknowledges the findings and is addressing the key issues identified in section V of the report, "Significant internal audit results", under the following headings to highlight the improvements being undertaken.

Governance and strategic management

Policies and procedures regarding the segregation of duties

3. UN-Women has an internal control framework policy in place. The global internal control framework was rolled out in November 2012 and serves as the guiding substantive document for ensuring the segregation of duties, as well as compliance with the financial regulations and rules of UN-Women. It also serves as a framework enabling colleagues to better understand their accountabilities and responsibilities. UN-Women has conducted training on the internal control framework and delegation of authority through workshops for operations managers at headquarters and through regional workshops. Each headquarters division, country office, multi-country office and regional office is required to follow the internal control framework process to implement its own controls in the context of its specific office structures. UN-Women will continue to ensure that those controls are functioning as intended.

Risk management policies and procedures

4. The UN-Women internal control framework policy is the primary mechanism for risk management, assessment and reporting. It provides a road map for compliance with the financial regulations and rules of UN-Women and for the identification of accountabilities and responsibilities. The strategic note and annual workplan process involves a critical analysis of the country context, including the identification of potential risks and how these can be mitigated in the Entity's proposed programmes. These documents are peer-reviewed before their approval by a senior management group made up of directors or their designates from all headquarters divisions. The strategic notes and annual workplans are also reviewed on an annual basis. Those reviews assess, inter alia, risks and challenges. UN-Women management sees the need for and has taken steps to initiate the development of an organization-wide enterprise risk management framework. The strategy for developing such a framework at UN-Women is twofold: (a) learning about good practices and challenges with respect to the implementation of enterprise risk management across the United Nations system; and (b) developing a practical approach to enterprise risk management tailored to the needs of UN-Women. It is

expected that, in the enterprise risk management process, which was scheduled to begin in March 2014, procedures for the identification, assessment, management, monitoring and reporting of risks, including risk assessment templates tailored to UN-Women programmes and operations, will be developed and disseminated.

Host country agreements specific to UN-Women

5. In respect of host country agreements specific to UN-Women, the Entity's relationships with the Governments of programme countries are based on the legacy of the relationships of UNDP with them. UNDP has used standard basic assistance agreements to legally establish and govern their relationships with programme countries.

6. When UN-Women became operational in 2011 pursuant to General Assembly resolution 64/289, the existing mandates and functions of the Office of the Special Adviser on Gender Issues and Advancement of Women, the Division for the Advancement of Women, the United Nations Development Fund for Women and the International Research and Training Institute for the Advancement of Women were consolidated and transferred to UN-Women. At present, UN-Women works within the United Nations Resident Coordinator system and has instituted its new regional architecture to facilitate its work globally. Through coordination with UNDP and communication with host Governments, UN-Women is working to extend the current coverage of standard basic assistance agreements to its presence and operations in programme countries. This is being achieved through the exchange of letters with host Governments and, where necessary, the establishment of new agreements. The institutional position is that UN-Women will extend the coverage of existing agreements, as it does not have the capacity, nor would it be to its benefit, to negotiate new ones.

7. This process has proved to be a challenging one for the organization, for various reasons. For example, in some Member States in which UN-Women previously had a programmatic presence and now has a full operational presence, either a standard basic assistance agreement does not exist (because the United Nations presence predated the establishment of UNDP) or such an agreement does exist but the national authorities are considering updating it in order to reflect the country's current relationship with the United Nations system. UN-Women is seeking to address those challenges in a strategic way and has developed a multifaceted strategy aimed at regularizing its in-country presences.

Guidance on the proper set-up and use of Atlas for recording and monitoring programme/project activities and expenditures

8. In November 2013, the Division of Management and Administration finalized the creation of individual business units in the Entity's enterprise resource planning system, Atlas, in line with the implementation of the new regional architecture. This is a corporate undertaking for all UN-Women field offices in which separate Atlas business units are being created for each country office. Separate Atlas department IDs have already been established for each field office, which effectively segregates the Atlas budget codes and financial transactions of each office. As part of the continuing efforts of UN-Women to provide more effective and accessible management reporting tools and platforms, a suite of newly designed project delivery reports was introduced in January 2012. The reports are aimed at increasing

operational and managerial effectiveness by providing the organization with real-time access to a project's delivery status. As part of the enhancement effort, a management reports site was established on the intranet to serve as a central repository of project delivery reports, which are uploaded on a monthly basis.

9. UN-Women recognizes the importance of information provided by computer-generated dashboards in assisting with the management and monitoring of key business operations and activities. On 31 May 2013, the Programme Division implemented a manually updated version of a dashboard for immediate use. The experience gained through the use of the dashboard will assist in identifying elements that operational and financial data management finds to be the most useful and relevant for use in developing a computerized dashboard in the near future. This will require a cost-benefit analysis to help UN-Women to decide on the timing and scope of an information technology project aimed at the development of a fully computerized dashboard.

Difficulties encountered during the roll-out of the regional architecture related to operational and programmatic capacities

10. In the Executive Board-approved UN-Women regional architecture proposal, all elements of the architecture were scheduled to be in place by the end of 2013. While UN-Women met that deadline, with all regional offices established and with regional directors in place, some delays were experienced with regard to the Europe and Central Asia Regional Office, owing to difficulties related to premises.

11. UN-Women recognizes that during the establishment of the new offices and the transfer of authorities and elements of oversight from headquarters to the regional offices, some difficulties were experienced by offices in terms of certain operational and programmatic capacities. UN-Women undertook special measures to respond to these, including additional training activities, surge capacity for offices with specific capacity issues and, in two cases, the retention of direct oversight by headquarters (in the Democratic Republic of the Congo following the change in the role of the West and Central Africa Regional Office in Rwanda, and in Bosnia and Herzegovina before the recruitment of the new Regional Director for Europe and Central Asia).

12. Despite the challenges inherent in maintaining high levels of programmatic performance in the context of major restructuring, UN-Women notes that delivery by field offices, which the Entity considers to be a solid overall indicator of efficiency in operations and programmes, increased markedly in 2013 compared with 2012, with the average delivery of field offices being greater than 80 per cent against budget. On this basis, UN-Women believes that the mitigation and response measures put in place in 2013 to respond to acknowledged challenges to operational and programmatic capacity proved largely effective.

Resource mobilization

13. Resource mobilization is a top corporate priority. UN-Women management requested all field offices to develop resource mobilization action plans, and, with the support of Headquarters, most offices now have action plans outlining the various opportunities at the local level, including a timeline with follow-up steps. In addition, UN-Women instituted an online tool that enables senior management to

monitor the progress of activities carried out by the field to mobilize non-core resources. The tool captures key resource mobilization life cycle actions, from the establishment of a promising dialogue with potential donors (soft pipeline) to firm commitments in writing (hard pipeline) and, finally, the signing of contracts. In 2014, all offices are required to develop resource mobilization strategies and to update action plans aimed at raising funds for their approved strategic notes/annual workplans. Headquarters is supporting field offices in the development of these resource mobilization strategies and, together with the Brussels Liaison Office, continues to provide training to country offices, while regional offices are increasingly providing resource mobilization support to country offices.

14. It is important to highlight the fact that UN-Women is continuing to strengthen partnerships with all donors through, inter alia, visits of the Under-Secretary-General/Executive Director and her Deputies to donor capitals, meetings with parliamentarians and engagement by UN-Women representatives with donors at the country level, but also through the establishment of partnership agreements with Member States and other partners. This has recently led to an increase in the core resource base and to certain increases in non-core resources. In 2013, UN-Women reached the core resources target of $150 million from more than 125 Member States, an increase compared with 113 Member States in 2012.

Project monitoring and oversight processes

15. UN-Women recognizes that project monitoring and oversight have been an area of weakness, and is seeking to improve its capacity in that regard. The Programme Operations Manual, finalized in 2012, contains new and strengthened guidance in this area, and it has been included in training courses in the field conducted by both headquarters and regional offices.

16. UN-Women has strengthened its oversight mechanism for expenditure incurred by its partners. A revised audit approach and new guidelines for the auditing of UN-Women non-governmental organization, government and intergovernmental organization projects has been put in place. UN-Women has also adopted risk-based audit planning. The terms of reference for the auditing of projects has been revised, and a schedule of all projects to be audited is maintained and updated on an ongoing basis. Through a competitive bidding process, UN-Women hired a global auditor, Moore Stephens International Limited, to conduct audits of UN-Women projects assigned to non-governmental organizations, Governments or intergovernmental organizations through project cooperation agreements or letters of agreement, in order to obtain assurance that the funds provided by UN-Women to those partners were used for the purposes intended.

17. At the end of 2013, UN-Women completed the development of its second-generation country plans (strategic notes). In this regard, the preparation of monitoring, evaluation and research plans, with a clear monitoring component, was a compulsory element of the process, with each regional, multi-country and country office required to prepare a plan that was reviewed and ultimately approved by the Headquarters peer review group, made up of representatives of all UN-Women divisions at headquarters. Offices are accountable for monitoring, evaluation and research activities in line with their monitoring, evaluation and research plans, and this will be part of the annual review process for country plans more generally. Thus,

as of 2014, each office has a monitoring plan as part of its approved monitoring, evaluation and research plan.

Procurement planning

18. UN-Women has launched a new online procurement planning tool. By means of this tool, the consolidation of requirements is automated and the Entity's procurement needs can be consolidated, categorized and assessed by type of commodities, by region, by country, etc. The online procurement plan is accessible to all UN-Women personnel on the UN-Women intranet. The planned activities are monitored by the Headquarters Procurement Section on a regular basis. Those items that are of a recurring nature and of high value are considered for corporate action. The tool ensures control and consistency in planning and enables UN-Women to obtain the best value for money in procurement activities.

Advances to implementing partners

19. UN-Women is continuously reinforcing its controls over cash advances to implementing partners through the monitoring and reconciliation of such advances on a monthly basis in line with the headquarters month-end guidelines and closure activities. This has been complemented by the delivery of many training sessions on Programme and Operations Manual policy, through both webinars for all offices and face-to-face training sessions. Furthermore, UN-Women has put in place a training module for implementing partners to ensure that they have a good understanding of monitoring and reporting modalities and of the documentation required for audit trail purposes.

Asset management

20. UN-Women has implemented an internal control framework with respect to asset management that ensures segregation of duties in the areas of authorization, recording and custody of assets. The recording of all asset transactions is centralized at Headquarters, and therefore all additions, transfers and disposals are recorded at Headquarters in accordance with the policy. Business unit focal points submit approved forms as required and conduct biannual asset verification and completed certifications. A detailed asset management procedure and operations manual was established to guide the business units with regard to asset management processes, documentation and UN-Women policy. The Programme and Operations Manual, the asset forms and the training materials have been made available on the intranet for reference.